BRITAIN

United States goes monetarist, too

Although British Prime Minister Margaret Thatcher has not publicly congratulated Federal Reserve chairman Volcker on his latest batch of monetary measures, the comments of her Chancellor of the Exchequer Geoffrey Howe to the Tory Party conference last weekend make clear that the Volcker moves are right in line with Tory economic philosophy. Howe told the conference: "You cannot have sound money unless you keep your money under proper control. So we shall have to set limits [for the rate of growth of the money supply] ... and we shall observe and enforce those limits with firm and unshakable resolve."

Howe also pledged that there would be absolutely no "U-turn" in the government's economic policy, though critics have predicted that the "shock treatment" of tightening credit, raising interest rates and cutting off subsidies to industry could plunge the country into an irreversible economic decline. "Growing impoverishment and unemployment in years to come" will result from the current financial squeeze, according to a recent Bank of England report, which concluded that there can be no turning back now.

"Corset controls," reserve requirements and high interest rates are one side of the "deindustrialization" policy pursued by successive British governments, whether Tory or Labour. It is much more difficult to terminally wreck the U.S. economy than it was the British, but the London press seems pleased that Volcker has begun to try.

—Marla Minnicino

Press praises U.S. 'turning point'
Daily Telegraph editorial, Oct. 9, "Now It's Up to Mr. Carter":
Only time will show whether the decisions taken by the United States' Central Bank over the weekend will succeed at last in stemming the flight from the dollar. Since the prime cause of anxiety about the dollar was the quickening pace of American inflation; and since this inflation has been fueled by the excessive availability of credit, Mr. Volcker's state-

GOLD

When in doubt—bluff

On Oct. 16, the U.S. Treasury announced that it would no longer offer for sale 750,000 ounces of gold at regular monthly auctions, but would sell "arbitrary amounts at arbitrary times." The Treasury's statement was interpreted in two different ways by market analysts.

One group, including Washington consultant Thomas Wolfe, characterized the move as a "graceful retreat" by the Treasury. Wolfe predicted that the Treasury would "sell less gold, less frequently." According to Wolfe, who headed up Treasury gold operations under President Ford, the monthly auctions not only failed to demonetize gold but allowed European and OPEC official and quasi-official agencies to increase their own gold holdings.

Other analysts say the Treasury may be preparing to increase its sales with an eye to driving down the gold price, possibly in coordination with other major central banks. Swiss central bank chief Fritz Leutwiler's unpublicized Oct. 12 meeting with Federal Reserve officials in Washington does give some support to this second theory. Leutwiler was recently quoted by several European newspapers as favoring a coordinated program of central bank gold sales.

In this writer's view, the Leutwiler plan has fallen through and the Treasury is merely stalling for time. U.S. antigold strategists know that to sell more gold now would merely play into the hands of European and Arab governments, who are planning to give gold a prominent role in a reorganized world monetary system.

At the Oct. 16 Treasury auction, Dresdner Bank, which is reputed to be buying on behalf of Arab or European quasi-official agencies, once again received the bulk of the gold offered—503,100 ounces out of a total 750,000. The average price paid for gold at this auction was a record $391.98.

Leutwiler's plan for coordinated sales was first aired in behind-the-scenes discussions at the Internation-

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

ment goes to the root of the trouble. If doubts remain—and they do—it is because credit restraint is bound to involve higher interest rates, and would be greatly helped by a reduction in the deficit spending of the Federal Government....

Unless it is clear that the Central Bank will enjoy the backing of the Administration—in deeds as well as words—scepticism is likely to persist.... Mr. Carter's prospects of reelection may not be bright. But unless he and his circle of advisors are now prepared to back up the action taken by the Federal Reserve with supporting action on public spending, those prospects will peter out.

Financial Times editorial, Oct. 8, "The Fed Faces the Issues":
There can be little question of the boldness of the new measures introduced by the Federal Reserve Board to tackle the domestic causes of the dollar crisis; they add up, indeed, to a considerable revolution in U.S. monetary policy.

... the Americans seem willing to learn something from British experience. One of the major difficulties facing the U.S. authorities in the last two years has been the growing ingenuity of the U.S. banks in finding new ways to finance credit expansion outside the officially defined money supply—notably through the explosive repurchase agreements under which the banks effectively pawn the securities they hold as reserves with their corporate customers.

The Fed has decided to tackle all these so-called "managed liabilities," by a method which seems to be modelled on the British "corset" controls....

Financial Times editorial, Oct. 13, "The World Goes Monetarist":
The announcement made in Washington last weekend could, if monetarists' beliefs are justified, prove the turning point in the post-OPEC era; for monetary control is now to be tried seriously for the first time as a general approach to combating inflation. This may seem an odd statement, since we in Britain have seen policy and market dominated by monetary targets, apart from one brief lapse, since 1976, and our European partners have much longer histories of firm monetary policy.

The fact is, however, that monetary policy has always been in danger of erosion as long as the growth of the world's most widely held currency, the dollar, was effectively out of control.... The radical reform introduced by Mr. Paul Volcker could end this disorderly period.

Sunday Telegraph editorial, Oct. 14, "Just beyond the Wall St. gloom—a turning point?"
Far from being another October 1929, last week, while tough for industry and bearish for Wall Street, could eventually be seen as a major turning point. That will still depend on how well Volcker and the Fed can keep Carter on course. And the President after him as well.

---

al Monetary Fund (IMF) conference earlier this month. French Economic Minister René Monory then warned that "France has no intention whatsoever of selling gold to dampen the price." Subsequently, the Oct. 11 *Lettre de l'Expansion* leaked word that France has its own gold plan which French Prime Minister Raymond Barre has discussed with West German Chancellor Helmut Schmidt, involving "an efficient, though discreet, kind of coordination of central bank policies on that matter."

In other words, the French government is proposing that the central banks establish a new official gold price. Leutwiler, on the other hand, is merely attempting to place a ceiling on the gold price while perhaps encouraging the United States to sell more gold as a dollar-support, balance-of-payments-propping measure. Significantly, sources at the Swiss National Bank report that Leutwiler never even consulted the French about his plan but spoke only with the Bundesbank and the Fed.

Leutwiler's approach to gold was echoed by the *Journal of Commerce* in an Oct. 12 editorial entitled "Weapon in Reserve." While ducking the question of gold remonetization ("We do not necessarily agree that the world should return to a gold standard..."), the *Journal* suggested that expanded gold sales might be used to reduce the U.S. money supply by taking dollars out of circulation.

Still another variation of the Leutwiler theme was sounded by Charles Stahl, publisher of *Green's Commodity Market Comments*. Stahl circulated at the IMF meeting a plan to establish a central bank gold pool but with a permissible trading range of $200. Stahl reports that his plan was favored by the Swiss, Dutch, Italians, and Japanese; the French opposed it and the West Germans were noncommittal. Shortly before the assassination of Dresdner Bank chairman Juergen Ponto in August 1977, Stahl labeled Ponto in his newsletter as the "gold-standard fuehrer," a play on words which can either be translated as "gold standard-bearer" or "Hitler of the gold standard."

The French proposal for a restoration of the gold pool will not work in and by itself. Just as the last gold pool was swamped by speculation in March 1968, and then dismantled through U.S. and British duplicity, this new version could also be vulnerable—depending on the outcome of the credit-policy fight covered in our lead story.

—*Alice Roth*